

# RURAL TELECOMMUNICATIONS GROUP

*the voice of rural wireless telecommunications providers*

1019 Nineteenth Street, NW, Suite 500  
Washington, DC 20036

EX PARTE OR LATE FILED

November 13, 1998

VIA OVERNIGHT MAIL

Magalie Roman Salas, Secretary  
Federal Communications Commission  
The Portals, 445 Twelfth Street, SW  
Washington, DC 20554

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NOV 16 1998

FCC MAIL ROOM

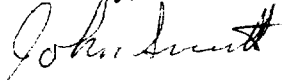
***Ex Parte Communication***

**Re: In the Matter of Federal-State Joint Board on Universal Service  
CC Docket No. 96-45**

Dear Ms. Salas:

On November 13, 1998, the Rural Telecommunications Group (RTG) sent the attached letter to all the members of the Federal-State Joint Board on Universal Service (Joint Board) regarding RTG's concern about the pending Joint Board decision regarding a forward-looking economic cost model. In the letter, RTG stated that the Joint Board should make clear that whatever model it adopts should not be used for rural telephone companies.

Sincerely,



John Smith

Rural Telecommunications Group

Enclosure

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1019 Nineteenth Street, NW, Suite 500  
Washington, DC 20036

November 13, 1998

The Honorable Susan Ness  
Chair Commissioner  
Federal Communications Commission  
1919 M Street, NW, Room 832  
Washington, DC 20554

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Dear Ms. Ness:

I am writing to express my concern about the Federal Communications Commission's ("FCC") misguided reliance on economic cost models for the determination of high cost universal service support for the provision of universal service. While the current model may work for non-rural companies, I urge you to make it clear that the model will not be used for rural telephone companies. Without such a clarification in your upcoming Recommended Decision, the continued provision of universal service in the areas that members of the Rural Telecommunications Group ("RTG") serves are in jeopardy.

The RTG is a group of rural telecommunications providers who have joined together to speed the delivery of new, efficient, and innovative telecommunications technologies to the populations of remote and underserved sections of the country. All of RTG's members are either rural telephone companies or affiliates of rural telephone companies. RTG members serve some of the most low density regions of the country such as the Texas panhandle where there is less than one access line per square mile. If there is one sure axiom that has been learned from the years of model study — it is that *low density equals high variability*. A model designed by and for non-rural companies will not work, even with "adjustments," for rural America.

I am troubled that the Federal-State Joint Board on Universal Service ("Joint Board") is preparing to vote without sufficient evidence that the model will produce valid results. It has taken the FCC countless man-hours and millions of dollars in resources to develop a model that still cannot produce any estimated revenues that can be made public. Even though the upcoming Joint Board vote will not officially apply the model to rural areas, I urge you to make it clear that the model will not be applied to the inherently fragile economics of genuine rural areas.

The Telecommunications Act of 1996 requires the FCC and the Joint Board to develop a system of universal support that is "specific, predictable, and sufficient." My fear is that, for rural telephone companies, the FCC's economic cost model proposed for approval by the Joint Board supports none of the criteria outlined in the law.

As of today, no actual calculations of high cost support have been made public. Even members of the Joint Board have not seen any tangible results, yet you will be asked to vote on a model that has potentially devastating results on the continued financial viability of rural telephone companies. In other words, you are being asked to choose a model not on the "specific" standard of the 1996 law but, rather, on

blind faith alone. While non-rural companies may be satisfied with the model, rural telephone companies are definitely not.

Since the model yields results based upon assumptions made by individuals without regard to the actual cost to provide service, it also fails the "predictability" standard of the law. Such "predictability" is crucial to rural carriers who do not have a large subscriber base to average out and absorb any inconsistencies. While the FCC may be reluctant to discard years of research and millions of dollars in computer software and hardware even though it still does not have a model that can be demonstrated to work, it should not be allowed to impose financial uncertainty upon rural telephone companies.

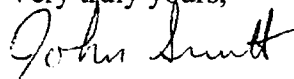
In addition, there are indications that large, highly profitable Bell companies will enjoy substantial increases in universal service revenue resulting from the application of this untested model. Meanwhile, the financial support of small rural telephone companies (which actually provide true universal service) will experience *cuts* in their share of the program. Since most rural companies struggle to provide quality, affordable service in high cost areas, any cuts in federal support will fail to pass the "sufficiency" test the law requires. I am asking your support to help prevent such a perverse result.

Now is the time for the Joint Board to make this clear. In order to provide the "specific, predictable, and sufficient" support that Section 254 of the Telecommunications Act of 1996 promises, the Joint Board's decision should contain the following assurances:

- The model will not be applied to rural telephone companies.
- The model must have outputs before a vote is taken.
- Universal service support should be held harmless for current recipients.
- If there is an increase in support for large, non-rural companies, there should be at least the same relative increase in support for small, rural telephone companies. The Joint Board should even consider doubling this increase due to the time lag between the large companies receiving support and rural companies switching to a new support mechanism. Otherwise, such a delay would create a competitive inequity.

On November 23, 1998, you will make a decision that will determine the economic viability of the continued provision of universal service in our country. I ask you to make the courageous decision to abandon the use of an unwieldy, uncertain, and unproven cost model for rural telephone companies.

Very truly yours,



John Smith  
Co-Chair, Rural Telecommunications Group  
Vice President and General Manager  
Leaco Rural Telephone Cooperative, Inc.